

AEEIC Group



Lesson 13

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Introduction to FOREX

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the right side of the frame, creating a modern, dynamic feel. The text is centered on a white background.

Introduction to FOREX

Module **Index**

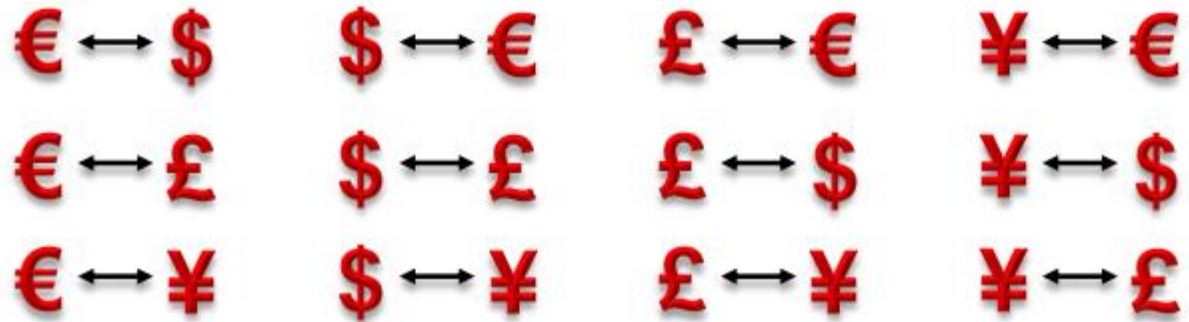
- **History of Forex**
- **Market structure**
- **Types of brokers**
- **Currency Pairs**
- **Spread**
- **What is a lot**
- **What is a pip**
- **Pip Value**
- **Profit and loss calculation**
- **Leverage & Margin**

Forex History

- In 1971, the United States abandoned the fixed value of the dollar and allowed it to "float". That is to fluctuate against other currencies.
- By 1973, all the nations participating in the Bretton Woods conference had agreed to allow exchange rates to float.
- Today most currencies are freely floating and the price is determined by the demand and supply of each currency.

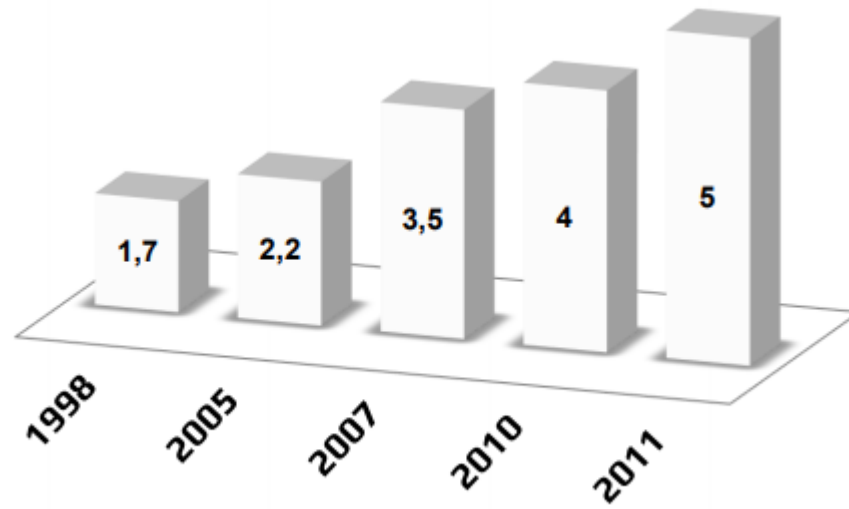


What is **Forex** ?

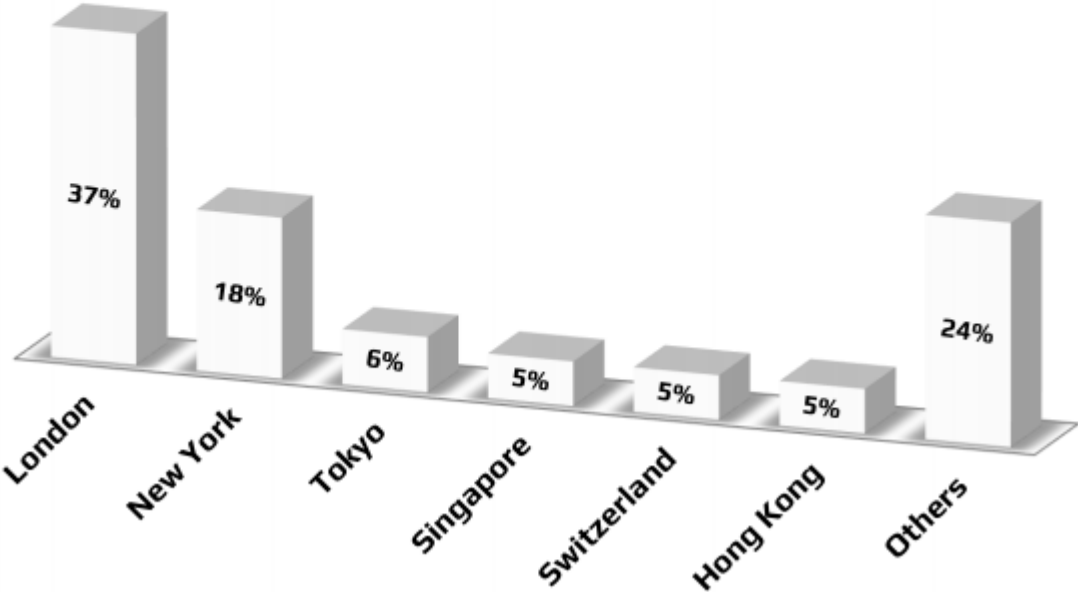


▪The Foreign Exchange Market or FOREX, is the “place” where currencies are traded - exchanged for one another.

Market **Daily Turnover**



Market Geographical Distribution

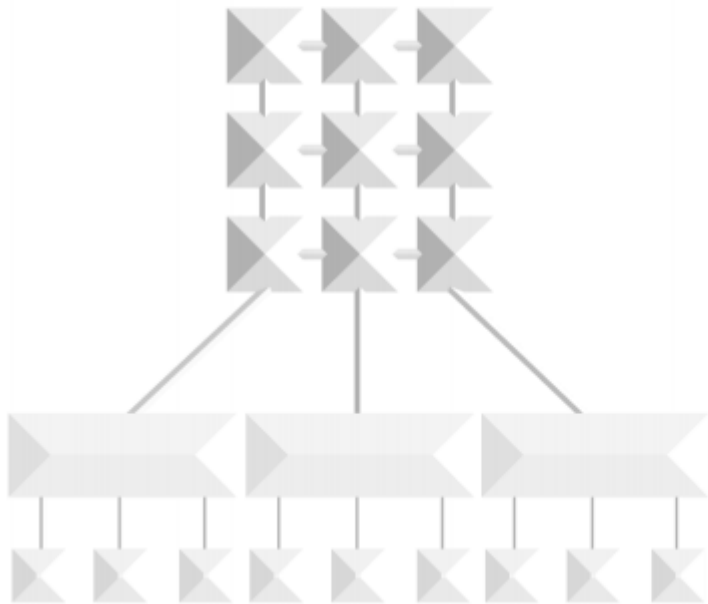


Market Sessions

GMT	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	1	2	3	4	5				
			London																									
								New York																				
	Syd.																			Sydney								
	Tokyo																			Tokyo								

- Forex is a global market.
- Works Monday to Friday 24 hours a day.

Market Structure **Current**



- **Interbank Market**
- **Forex Brokers**
- **Forex Traders**

Market **Participants**

The main forex market participants can be divided in 8 distinct categories :

- Central Banks
- Banks
- Commercial Companies
- Hedge Funds
- Investment Management Firms
- Retail Foreign Exchange Brokers
- Money transfer/remittance companies
- Private Investors/Traders

Namely, **You & Me**

Market **Operation Modes**

DD – Dealing Desk mode

- Indirect access to the interbank market
- Trader's counterparty is his broker, who is the market maker
- Spreads are usually higher but fixed
- Possible re-quoting of prices during economic announcements

NDD – No Dealing Desk mode

- Direct access to the interbank market
- Trader's counterparty is the other market participants and market makers
- Spreads are usually lower but not fixed
- No re-quoting of prices during economic announcements

Market **Currency Pairs**



- In order to buy a quantity of a foreign currency first of all we need to sell the equivalent quantity of our currency. Thus, simultaneously we sell our currency and we buy the other.
- That's why the forex market works always in pairs.

Market Currency Pairs **Example**



EUR/USD = 1.3500

1 EUR = 1.3500 USD

Market Currency Pairs “Majors”

The 7 most traded pairs of currencies in the world are called the “Majors” and they are commonly known by their nicknames.

- **EUR/USD** ▪ Euro - US Dollar ▪ “Euro”
- **USD/JPY** ▪ US Dollar - Japanese Yen ▪ “Dollar Yen”
- **GBP/USD** ▪ British Pound - US Dollar ▪ “Cable” or “Sterling”
- **USD/CHF** ▪ US Dollar - Swiss Franc ▪ “Swissy”
- **USD/CAD** ▪ US Dollar - Canadian Dollar ▪ “Loonie”
- **AUD/USD** ▪ Australian Dollar - US Dollar ▪ “Aussie Dollar”
- **NZD/USD** ▪ N. Zealand Dollar - US Dollar ▪ “Kiwi”

Currency Pairs “Majors” **Features**

“Majors” features:

▪ They are :

- **Very Liquid**
- **Less Volatile**
- **Heavily Traded**
- **80% of the Daily Forex Market Volume**
- **Less Susceptible to Manipulation**

▪ They have :

- **Tighter Spreads**

Market Currency Pairs “Crosses”

Currency pairs that do not involve US Dollar called Crosses, because usually before we trade these pairs, we have to trade first a pair which include the US Dollar. The most actively traded Cross Pairs are :

- **EUR/JPY** ▪ Euro - Japanese Yen
- **NZD/JPY** ▪ N. Zealand Dollar - Japanese Yen
- **GBP/JPY** ▪ British Pound - Japanese Yen
- **EUR/GBP** ▪ Euro - British Pound
- **EUR/CHF** ▪ Euro - Swiss Franc
- **AUD/JPY** ▪ Australian Dollar – Japanese Yen

Currency Pairs “Crosses” **Features**

“Crosses” features :

They are :

- **Less Liquid**
- **More Volatile**
- **Susceptible to Manipulation**
- **Riskier, because of their sensitivity
in sudden political & financial developments**

They have :

- **Wider Spreads**

Market Currency Pairs “Exotics”

Currency pairs, which at least one part of the pair is the currency of a country with emerging economy, called Exotics. Some of them are :

- **EUR/TRY** ▪ Euro - Turkish Lira
- **USD/TRY** ▪ US Dollar - Turkish Lira
- **USD/MXN** ▪ US Dollar - Mexican Peso
- **USD/ZAR** ▪ US Dollar - S. African Rand
- **USD/SGD** ▪ US Dollar - Singapore Dollar

Currency Pairs “Exotics” **Features**

“Exotics” features:

▪They are :

- **Not Liquid**
- **Very Volatile**
- **Susceptible to Manipulation**
- **Riskier, because of their sensitivity
in sudden political & financial developments**

▪They have :

- **Huge Spreads**

What is a **Pip** ?

PIP (Point in Price) is the smallest price change, that a given exchange rate can make.

it is usually the 4th decimal point.

▪ EUR/USD	▪ Position opening at	1.30 58
	Position closing at	1.30 73
	Difference	0.0015 pips

Some platforms offer prices in 5 decimal points.

▪ EUR/USD	▪ Position opening at	1.30 583
	Position closing at	1.30 732
	Difference	0.0015.1 pips

What is a **Pip** ?

US Dollar pairs and others currency pairs are quoted in 4 (sometimes 5) decimal digits.

▪ **EUR/USD : 1.3055 (sometimes 1.30552)**

Japanese Yen pairs are quoted in 2 (sometimes 3) decimal digits.

▪ **EUR/JPY : 110,45 (sometimes 110,454)**

What is **Spread** ?

Currency pairs are quoted in Bid and Ask prices.

- **Bid** is the price to **sell** the base currency
- **Ask** is the price to **buy** the base currency

The difference between these prices is the spread.

- **EUR/USD** ▪ Ask price **1.3058**
Bid price **1.3053**
Spread **0.0005 pips**

What is a **Lot** ?

In some platforms Currencies in FOREX are traded in Lots.
A standard lot size is 100.000 units of the base currency.

EUR/USD **1 Lot** = **100.000 €**

GBP/USD **1 Lot** = **100.000 £**

USD/JPY **1 Lot** = **100.000 \$**

There are three types of Lots (by size):

Standard Lot = **100.000** units

Mini Lot = **10.000** units

Micro Lot = **1.000** units

Pip Value Calculation

How much is one pip worth per 100.000 of the base currency?

The formula is :

Amount of Base Currency x Pips = Value in Quote Currency

- **Value of 1 Pip in EUR/USD : 1 Lot (100.000 €) x 0.0001 = 10 USD**
- **Value of 1 Pip in GBP/USD : 1 Lot (100.000 £) x 0.0001 = 10 USD**
- **Value of 1 Pip in USD/CHF : 1 Lot (100.000 \$) x 0.0001 = 10 CHF**
- **Value of 1 Pip in EUR/JPY : 1 Lot (100.000 €) x 0.01 = 1.000 JPY**

What is **Leverage** ?

Leverage is a Loan that is provided to an investor by the broker.
The ratio can be :

10:1 20:1 50:1 100:1 200:1 up to 500:1

If you deposit 10.000 \$ in your trading account and you want to trade with a leverage of 100:1 the mathematics are :

$100 \times 10.000 = 1.000.000 \$$

In other words, the leverage provides the means to an investor to have an increased trading capital, giving the opportunity of having maximized outcome.

What is **Leverage** ?

Example 1

Trading capital **10.000 €** leverage choice **100:1** :

$$100 \times 10.000 \text{ €} = \text{€}1.000.000 \text{ €}$$

- **EUR/USD** ▪ Long Position opening at **1.3055**
Position closing at **1.3155**
Difference 0.0100 **pips**

$$\text{Profit} = 1.000.000 \times 0.0100 = \text{10.000 \$}$$

You almost **Doubled** your **Money!**

What is **Leverage** ?

Example 2

Trading capital **10.000 €** leverage choice **100:1** :

$$100 \times 10.000 \text{ €} = \text{€}1.000.000 \text{ €}$$

- **EUR/USD** ▪ Long Position opening at **1.3055**
 - Position closing at **1.3035**
- Difference 0.0020 pips

$$\text{Loss} = 1.000.000 \times 0.0020 = \text{2.000 \$}$$

You **Lost** almost 20% of your **Money** !

What is **Margin** ?

Since a trader is allowed to use more capital than the amount he/she deposited (due to leverage) a collateral (margin) is required by the broker to ensure that any losses are covered.

Example : If the initial **deposit** is : **20.000 \$**

And the **leverage** choice is : **20:1**

The required **margin** is : **5%**

20.000 \$ x 20 = 400.000 \$ Trading Capital at traders disposal

▪ **EUR/USD** ▪ **2 Lots** (200.000 €) at **1.3000**

200.000 € x 1.3000 = 260.000 \$

260.000 \$ x 5% = 13.000 \$ Margin

What are **Long** & **Short** positions ?

In Forex a trader makes profit when Buy price < Sell Price
The order does NOT matter

Buy then Sell



Sell then Buy



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or energy

Saving energy, saving the environment

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